Arizona Department of Transportation

Maricopa County Regional Area Road Fund

Annual Financial Report

For the Year Ended June 30, 2020

Arizona Department of Transportation

Maricopa County Regional Area Road Fund

For the Year Ended June 30, 2020

Table of Contents

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

Director
Arizona Department of Transportation
Phoenix, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Maricopa County Regional Area Road Fund (Fund) of the Arizona Department of Transportation, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Maricopa County Regional Area Road Fund of the Arizona Department of Transportation as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

A member of Nexia International

Emphasis of Matters

During the fiscal year ended June 30, 2020, the Fund changed its method of amortizing bond premiums from the straight-line basis to the effective interest method. As a result, the Fund reported a restatement to beginning net position of its Governmental Activities for the change in accounting principle. The restatement is described further in Note 11 to the financial statements. Our auditors' opinion was not modified with respect to the restatement.

As discussed in Note 1, the financial statements of the Maricopa County Regional Area Road Fund are intended to present the financial position, and the changes in financial position of only that portion of the governmental activities and the major funds of the Arizona Department of Transportation, that is attributable to the Maricopa County Regional Area Road Fund. They do not purport to, and do not, present fairly the financial position of the Arizona Department of Transportation, as of June 30, 2020, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Fund's proportionate share of the net pension liability and contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2021, on our consideration of the Maricopa County Regional Area Road Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Maricopa County Regional Area Road Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Maricopa County Regional Area Road Fund's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
January 15, 2021

As management of the Arizona Department of Transportation (ADOT), Maricopa County Regional Area Road Fund (Fund), we offer readers of the Fund's financial statements this narrative overview and analysis of the financial activities of the Fund for the fiscal year ended June 30, 2020. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements and the accompanying notes to the basic financial statements.

Financial Highlights

- The assets and deferred outflows of resources of the Fund at the close of the fiscal year were $507.2 million compared to $541.9 million for fiscal year 2019, a decrease of $34.6 million or 6.4%. The decrease in assets and deferred outflows of resources is primarily due to repayment of bonded debt and amortization of deferred losses on bond refundings in fiscal year 2020.
- Beginning net position has been restated (decreased) by $36.6 million due to a change in amortizing bond issue premiums from the straight-line method to the effective interest method. Net position of the Fund increased by $86.9 million, net of prior period adjustments. See Note 11 for further information.
- For fiscal year 2020, the Fund distributed $342.4 million of net capital assets to the Arizona Department of Transportation, compared to $479.0 million for fiscal year 2019, a decrease of $136.6 million or 28.50%. The majority of the decrease is attributable to a decrease in construction expenditures in the Fund for the South Mountain Freeway (Loop 202), which was substantially completed and opened to traffic as of December, 2019.
- Maricopa County Transportation Excise Tax received by the Fund (64.0% of the total revenue collected) was $326.5 million in fiscal year 2020 compared to $311.2 million for fiscal year 2019, an increase of $15.4 million or 4.9%. The increase in transportation excise tax revenues and distributions are attributable to growth in retail and contracting net taxable sales.
- Grants and reimbursements totaled $159.7 million compared to $87.5 million for fiscal year 2019, an increase of $72.1 million or 82.5%. The increase is attributable to reimbursements for new highway constructions projects that began in fiscal year 2020.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction of the Fund's basic financial statements. The Fund's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements.

Government-wide Financial Statements The government-wide financial statements are designed to present an overall picture of the financial position of the Fund. These statements consist of the statement of net position and the statement of activities and are prepared using *the economic resources measurement focus, and the accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Transportation excise taxes are recognized as revenues in the year they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net position combines and consolidates the Fund's governmental funds' financial statement balances with noncurrent assets, deferred outflows of resources, noncurrent liabilities, and deferred inflows of resources. The net position is the difference between the Fund's assets, deferred outflows of resources, deferred inflows of resources, and liabilities, and represents one measure of the Fund's financial health.

The statement of activities focuses on both the gross and net cost of various activities; the Fund's *general tax* and *other general revenues* help support the cost of providing specific Fund services. This statement summarizes both program revenues, which directly support the expenses of providing Fund services and the general revenues that further contribute to financing the provision of these services.

Fund Financial Statements The Fund's activities are reported as governmental funds. Reporting for these funds focuses on how financial resources flow into and out of the funds, and the amounts remaining at year-end for future spending. Governmental funds are accounted for using *current financial resources measurement focus and the modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Fund considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures generally are recorded when a liability is incurred as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due and payable. The reconciliation following the fund financial statements explains the differences between the government's activities reported in the government-wide statement of activities and the governmental funds.

The Fund maintains three individual governmental funds. Information is presented separately in the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances for the Special Revenue Fund, the Debt Service Fund, and the Capital Projects Fund. All three funds are presented as major funds.

Notes to Financial Statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found by clicking here.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Fund's financial health. The following tables and analysis discuss the financial position and changes to financial position for the Fund as a whole as of and for the fiscal year ended June 30, 2020.

The following table reflects the statement of net position as of June 30:

	Governmental Activities	
	2020	2019
Assets:		
Current and other assets	$ 31,293,594	$ 49,403,697
Restricted cash on deposit with State Treasurer	456,029,289	468,246,210
Total assets	487,322,883	517,649,907
Deferred outflows of resources	19,908,243	24,209,935
Liabilities:		
Current liabilities	31,373,696	27,109,816
Noncurrent liabilities	750,965,081	839,424,407
Total liabilities	782,338,777	866,534,223
Deferred inflows of resources	1,258,422	1,967,991
Net position:		
Restricted	455,949,187	490,540,091
Unrestricted	(732,315,260)	(817,182,463)
Net position <deficit>	$ (276,366,073)	$ (326,642,372)

The purpose of the Fund is to fund design, right of way, construction, improvement, maintenance of, and debt service related to, freeways and routes on the state highway system, and improvements to the arterial street system in Maricopa County. The assets and deferred outflows of resources of the Fund were $507.2 million, while the liabilities and deferred inflows of resources were $783.6 million, resulting in deficit net position of $276.4 million.

More detailed information regarding beginning net position restatements is in Note 11

The decrease in negative net position from fiscal year 2019 was due to an increase in Transportation Excise Tax revenues and federal grant revenue in fiscal year 2020. The Fund distributes all capital assets to the Arizona Department of Transportation when the Fund comes into possession of such assets. However, revenue bonds which finance these distributed capital assets are reported in the Fund's Statement of Net Position. As a result, the net position of the Fund will typically show a deficit whenever there are bonds outstanding.

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Fund's net position has changed during the year:

	Governmental Activities	
	2020	2019
Revenues:		
Program revenues:		
Charges for services	$ 10,190,948	$ 35,009,043
Capital grants and contributions	159,653,344	87,503,593
General revenues:		
Transportation excise taxes	326,545,947	311,187,957
Interest income	10,495,681	6,305,036
Other	3,507,258	—
Total revenues	510,393,178	440,005,629
Expenses:		
Administration	237,640	2,242,520
Highway	1,196,938	8,112,119
Highway maintenance	7,724,193	2,699,401
Distributions to other governmental agencies (Note 5)	389,795,487	513,048,684
Interest on long-term debt	24,516,353	25,783,509
Total expenses	423,470,611	551,886,233
Changes in net position	86,922,567	(111,880,604)
Net position <deficit> - July 1, as restated	(363,288,640)	(214,761,768)
Net position <deficit> - June 30	$ (276,366,073)	$ (326,642,372)

The total revenues of the Fund were $510.4 million, while the expenses were $423.5 million, resulting in the change in net position of $86.9 million. The increase in revenues for fiscal year 2020 was a result of new highway construction projects in Maricopa County. The increase in Transportation Excise Tax revenue results from increased net taxable sales related to retail and contracting.

The decrease in expenses of $128.4 million or 23.3% was due mainly to the decrease in Distributions to governmental agencies resulting from decreased expenditures on various road construction projects.

For additional information on the difference between fiscal year 2019 ending net position and fiscal year 2020 beginning net position, see Note 11

Fund Financial Analysis

The government-wide financial analysis and the fund financial analysis analyze substantially the same financial components, and, therefore, are not duplicated in this section.

Non-Current Liabilities (See Note 4 to the financial statements for additional information):

The Fund's non-current liabilities (including net pension liabilities and net OPEB liability) as of June 30, 2020, amount to $751.0 million, a decrease of $125.1 million or 14.3% from the previous fiscal year. The beginning balance of bond premiums was restated (increased) by $36.6 million, see Note 11 for details. The decrease in the Fund's noncurrent liabilities was due to principal repayments and no new bond issuances during the year. Accrued relocation costs associated with displacement of certain residents and businesses through the eminent domain process related to the South Mountain Freeway decreased during fiscal year 2020. Accrued relocation costs are expected to continue to decrease due to the completion of the South Mountain Freeway project. Net pension liability remained essentially the same as fiscal year 2019. The following table presents non-current liabilities for the Fund:

	2020	2019, as restated
Governmental Activities:		
Bonds:		
Transportation excise tax revenue bonds	$ 624,415,000	$ 732,365,000
Premium on bonds	112,577,497	127,607,768
Accrued relocation costs	7,218,233	9,508,138
Compensated absences	—	2,139
Total non-current liabilities	$ 744,210,730	$ 869,483,045
Net pension liability	$ 5,242,569	$ 5,227,814
Net OPEB liability	$ 1,511,782	$ 1,359,816

All bonds outstanding as of June 30, 2020, are scheduled to mature on various dates, but not later than July 1, 2025. The bonds are obligations of the Arizona State Transportation Board (Transportation Board) and are secured solely by the transportation excise tax revenue collected by the Fund.

The Fund's Transportation Excise Tax Revenue Bonds are rated AA+/Aa1 by Standard & Poor's Ratings Services and Moody's Investors Service, respectively.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with an overview of the Fund's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Controller, Arizona Department of Transportation, 206 S. 17th Avenue, Phoenix, Arizona, 85007, or by visiting our web site at:

http://www.azdot.gov/about/FinancialManagementServices/transportation-funding/regional-area- road-fund.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Arizona Department of Transportation

Exhibit 1

Maricopa County Regional Area Road Fund

Statement of Net Position

June 30, 2020

Assets	
Receivables:	
Other, net of allowance for doubtful accounts	$ 11,124,260
Due from U.S. government	20,169,334
Restricted cash with the State Treasurer	456,029,289
Total Assets	487,322,883
Deferred Outflows of Resources	
Relating to pensions (Note 10B)	638,904
Loss on debt refunding	18,916,375
Relating to OPEB	352,964
Total Deferred Outflows of Resources	19,908,243
Liabilities	
Accounts payable and other current liabilities	26,604,451
Accrued payroll and other accrued expenses	356,670
Due to government agencies	4,412,575
Noncurrent liabilities (Note 4B):	
Due within one year	136,411,808
Due in more than one year	607,798,922
Net pension liability (Note 10B)	5,242,569
Net OPEB liability	1,511,782
Total Liabilities	782,338,777
Deferred Inflows of Resources	
Relating to pensions (Note 10B)	710,987
Relating to OPEB	547,435
Total Deferred Inflows of Resources	1,258,422
Net Position <Deficit>	
Restricted	455,949,187
Unrestricted <deficit>	(732,315,260)
Net position <deficit>	$ (276,366,073)

The notes to the financial statements are an integral part of this statement.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Statement of Activities
For the fiscal year ended June 30, 2020

Exhibit 2

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Capital Grants and Contributions	Net <Expenses> Revenues
Governmental Activities:				
Administration	$ 237,640	$ 9,650,384	$ —	$ 9,412,744
Highway	1,196,938	540,564	159,653,344	158,996,970
Highway maintenance	7,724,193	—	—	(7,724,193)
Distributions to governmental agencies (Note 5)	389,795,487	—	—	(389,795,487)
Interest on long-term debt	24,516,353	—	—	(24,516,353)
Total governmental activities	$ 423,470,611	$ 10,190,948	$159,653,344	$ (253,626,319)
General revenues:				
Transportation excise taxes (Note 6)				326,545,947
Interest Income				10,495,681
Other				3,507,258
Total general revenues				340,548,886
Change in net position				86,922,567
Net position (deficit) - July 1, as restated				(363,288,640)
Net position (deficit) - June 30				$ (276,366,073)

The notes to the financial statements are an integral part of this statement.

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Balance Sheet - Governmental Funds
June 30, 2020

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Assets				
Receivables:				
Other, net	$ 11,124,260	$ —	$ —	$ 11,124,260
Due from U.S. government	20,169,334	—	—	20,169,334
Restricted cash with the State Treasurer	455,915,555	113,734	—	456,029,289
Total assets	$487,209,149	$ 113,734	$ —	$487,322,883
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities:				
Accounts payable	26,604,451	—	—	26,604,451
Due to government agencies	4,412,575	—	—	4,412,575
Accrued payroll and other accrued expenditures	356,670	—	—	356,670
Total liabilities	31,373,696	—	—	31,373,696
Deferred inflows of resources:				
Unavailable revenue	6,806,793	—	—	6,806,793
Fund balances:				
Restricted	449,028,660	113,734	—	449,142,394
Total fund balances	449,028,660	113,734	—	449,142,394
Total liabilities, deferred inflows of resources, and fund balances	$487,209,149	$ 113,734	$ —	$487,322,883

The notes to the financial statements are an integral part of this statement.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2020

Exhibit 3.1

Total fund balances - governmental funds (Exhibit 3)	$ 449,142,394
Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:	
Certain receivables are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the funds.	6,806,793
Losses on long-term debt refundings are not available to liquidate liabilities in the current period, and, therefore, are not reported the funds.	18,916,375
Non-current liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(744,210,730)
Net OPEB liability and related deferred outflows and inflows of resources is not due and payable in the current period and, therefore, are not reported in the funds.	(1,706,253)
Net pension liability and related deferred outflows and inflows of resources is not due and payable in the current period and, therefore, are not reported in the funds.	(5,314,652)
Net position of governmental activities (Exhibit 1)	$ (276,366,073)

The notes to the financial statements are an integral part of this statement.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the fiscal year ended June 30, 2020

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Revenues:				
Transportation excise taxes	$ 326,545,947	$ —	$ —	$ 326,545,947
Federal grants and reimbursements	151,394,824	—	—	151,394,824
Reimbursements from government agencies	10,417,901	—	—	10,417,901
Interest income	9,336,614	1,159,067	—	10,495,681
Sales and Charges for Services	9,650,384	—	—	9,650,384
Rental income	540,564	—	—	540,564
Other	3,507,258	—	—	3,507,258
Total revenues	511,393,492	1,159,067	—	512,552,559
Expenditures:				
Current:				
Administration	43,908	—	—	43,908
Highway	1,515,622	—	—	1,515,622
Highway maintenance	7,625,811	—	—	7,625,811
Distributions to governmental agencies (Note 5)	392,077,944	—	7,448	392,085,392
Debt Service:				
Principal	—	107,950,000	—	107,950,000
Interest	—	35,763,349	—	35,763,349
Total expenditures	401,263,285	143,713,349	7,448	544,984,082
Excess <deficiency> of revenues over <under> expenditures	110,130,207	(142,554,282)	(7,448)	(32,431,523)
Other financing sources <uses>:				
Transfers in	—	142,181,382	—	142,181,382
Transfers out	(142,181,382)	—	—	(142,181,382)
Total other financing sources <uses>:	(142,181,382)	142,181,382	—	—
Net changes in fund balances	(32,051,175)	(372,900)	(7,448)	(32,431,523)
Fund balances - July 1	481,079,835	486,634	7,448	481,573,917
Fund balances - June 30	$ 449,028,660	$ 113,734	$ —	$ 449,142,394

The notes to the financial statements are an integral part of this statement.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the fiscal year ended June 30, 2020

Exhibit 4.1

Net change in fund balances - total governmental funds (Exhibit 4)	$	(32,431,523)
Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:		
Bond proceeds provide current financial resources to governmental funds. However, issuing debt increases long-term liabilities in the statement of net position. Governmental funds report the effect of premiums, discounts, and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities (Note 3 B1).		2,289,905
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position (Note 3 B1).		119,196,996
Pension contributions are reported as expenditures in the governmental funds (Note 3 B2).		838,192
Change in net OPEB liability		(813,761)
Some items reported in the statement of activities do not require the use of or provide current financial resources and, therefore, are not reported as expenditures or revenues in the funds (Note 3 B3)		(2,157,242)
Change in net position of governmental activities (Exhibit 2)	$	86,922,567

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Maricopa County Regional Area Road Fund (Fund) is a part of the Arizona Department of Transportation (the Department) and is not a legally separate entity. The Fund was established under Title 28, Chapter 17, Article 1 of the Arizona Revised Statutes. The Fund has no component units. The Director of the Fund serves as the Chief Administrative Officer and is directly responsible to the governor. The governor appoints a seven member Transportation Board (Transportation Board) of the State of Arizona Department of Transportation which has responsibility for establishing a complete system of state highway routes and approving all highway construction contracts.

The Fund is responsible for funding the construction and distribution of assets to governmental agencies by issuing revenue bonds and by the collection of an excise tax. The Fund and the Maricopa Association of Governments cooperate with various governmental entities within Maricopa County in the construction and improvement of roads.

The financial statements present only the funds comprising the Fund and are not intended to present fairly the financial position or results of operations of the Department. The accounting policies of the Fund conform to generally accepted accounting principles in the United States of America (GAAP) as applicable to governmental units.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the reporting entity. Substantially all interfund activity and balances have been eliminated from the accompanying financial statements. Governmental activities normally are supported by federal reimbursement, taxes, and intergovernmental revenues.

The **Statement of Net Position** presents the reporting entity's non-fiduciary assets, deferred outflows of resources, deferred inflows of resources and liabilities, with the difference reported as net position. Net position is normally reported in three categories, with exceptions as note below:

1. *Net investment in capital assets* consists of capital assets, net of accumulated depreciation and is reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. Because the fund does not report any capital assets, this component of Net Position is excluded from the Fund's government-wide Statement of Net Position.

2. *Restricted* net position results when constraints placed on asset use are either externally imposed by creditors, grantors, contributors, or imposed by law through constitutional provisions or other external restrictions. Negative restricted net position is not presented.

3. *Unrestricted* net position consists of those assets which do not meet the definition of the two preceding categories. However, unrestricted net position are often designated to indicate that management does not consider them to be available for general operations. The unrestricted component may also have constraints on resources which are imposed by management, but can be removed or modified by management or the Transportation Board.

When both restricted and unrestricted resources are available for use, the Fund generally expends the restricted resources first, and then unrestricted resources, as they are needed to maintain appropriate cash balances and finance the construction program.

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identified with a specific function. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included in program revenues are reported instead as *general revenues.* Finally, the Statement of Activities format shows the extent to which *general revenues* support the net expense of all programs or functions.

Fund Financial Statements

Major individual governmental funds are reported as separate columns in the Fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Transportation excise taxes are recognized as revenues in the year they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Fund considers revenues to be available if they are collected within 60 days of the end of the fiscal year (e.g., federal revenue reimbursements and transportation excise taxes). Expenditures generally are recorded when a liability is incurred as under accrual accounting, except liabilities not expected to be liquidated with current available financial resources, as defined above. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due and payable.

Financial Statement Presentation

The Fund reports the following major governmental funds:

1. *The Special Revenue Fund* receives a portion of the Maricopa County transportation excise tax monies collected by the Arizona Department of Revenue. These monies are expended for the construction of new freeways and other routes, improvements to existing freeways and other routes, and improvements to the arterial street system, which are included in the Maricopa County Regional Transportation Plan, after the monthly debt service requirements are fully satisfied.

2. *The Debt Service Fund* administers the payment of principal and interest on all bonds outstanding under the bond resolutions. Refunding bond activity, including bond proceeds and payments to refunded bond escrow agents is also reported in the Debt Service Fund.

3. *The Capital Projects Fund* is used to account for financial resources used for the acquisition or construction of major capital facilities in the governmental funds. Proceeds from the issuance of Transportation Excise Tax Revenue Bonds is reported in the Capital Projects Fund. All capital assets of the Fund are transferred to ADOT.

In the government-wide Statement of Activities, amounts reported as *program revenues* include: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Internally-dedicated resources are reported as *general revenues* rather than program revenues. Likewise, general revenues include all taxes, regardless of the fact that such taxes are dedicated to financing specific programs or functions.

The expenditures of the Fund are not governed by appropriations of the state legislature and therefore are not subject to the limitations of a legally adopted budget.

The Transportation Board annually approves the Five-Year Transportation Facilities Construction Program for the Special Revenue and Capital Projects Funds. This program lists all planned design, right of way and construction projects for the next five years and the related project budget. Debt service payments are made in accordance with the requirements under the relevant bond resolutions.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balances

Deposits and Investments

The Fund's cash includes bank accounts and deposits with the State Treasurer for pooled investments. All investments are carried in the name of the State of Arizona. State statutes require the State Treasurer to invest these pooled funds in collateralized time certificates of deposit, repurchase agreements, obligations of the U.S. Government, and other permitted investments. All investments are carried at fair value. These balances are not subject to Governmental Accounting Standards Board

(GASB) Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements,* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3,* classification because they are included in the state's investment pool.

The investment pool is not required to register (and is not registered) with the Securities and Exchange Commission under the 1940 Investment Advisors Act. The activity and performance of the pool is reviewed monthly by the State Board of Investment in accordance with ARS §35-311. The fair value of investments is measured on a monthly basis. Participant shares are purchased and sold based on the Net Asset Value (NAV) of the shares. The NAV is determined by dividing the fair value of the portfolio by the total shares outstanding. The State Treasurer does not contract with an outside insurer in order to guarantee the value of the portfolio or the price of shares redeemed. As of June 30, 2020, the State's investment pool 4 was not rated. The weighted average maturity at year-end for investment pool 4 was 3.28 years.

State statutes require the State Treasurer to maintain separate investment accounts for the portion of the Maricopa Regional Area Road Fund Bond Proceeds relating to the Transportation Excise Tax Revenue Bond issues. These funds may be invested by the State Treasurer in the state's investment pool.

The Fund's investments are included in the state investment pool and these investments are not shown in the Fund's name. From the perspective of the Fund, the pool functions as both a cash management pool and a demand deposit account. Therefore, the Fund presents its equity in the internal pool as required in GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* and carries the investments at amortized cost, which approximates fair value. All cash in the Fund is restricted for payment of capital projects and for future debt service payments.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position or fund balance by the Fund that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources increase net position or fund balance, similar to assets.

Receivables and Payables

Outstanding balances between the Fund, the Department and Arizona governmental agencies are reported as receivables. The balance of Due from the U.S. Government is for reimbursable costs expended in the current year, for which the fund has not been reimbursed by year-end.

Net Position

The difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources and is "Net Position" on the government-wide statements.

Restricted Net Position

Restricted net position is presented when restricted assets exceed liabilities to which such liabilities relate. Negative *restricted net position* is not presented, but rather, included in the *unrestricted net position* component. The debt service fund is used to report the resources set aside for payment of future debt service payments. Revenue bonds proceeds are deposited in the capital projects fund for the cost of design, right-of-way purchase, or construction of certain freeways and routes within Maricopa County, except for debt refundings, whose revenue bond proceeds are reported in the debt service fund to accomplish refinancing of other outstanding debt. Normally, proceeds from refunding debt are deposited directly to bond escrow agents's accounts, who pay bondholders according to bond paying agent or bond trustee agreements. See Note 4 for mote detailed information regarding bonded debt.

Capital Assets

When the Fund comes into possession of capital assets, the assets are distributed to the Arizona Department of Transportation, therefore, such assets are not reported in the Statement of Net Position of the Fund.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred. Long-term obligations also include amounts that other governmental entities advanced to the Fund for highway road construction projects, as well as accrued relocation costs, and compensated absences.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Deferred gains or losses arising from debt refundings are reported as deferred outflows of resources (losses) or deferred inflows of resources (gains) and are amortized on a straight-line basis over the life of the new debt, or the life of the refunded debt, whichever is shorter. Advances from other governmental entities are recorded as debt issuance in other financing sources.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position or fund balance by the Fund that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then. Deferred inflows of resources decrease net position or fund balance, similar to liabilities.

Pensions and Other Post-employment Benefits (OPEB)

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plan’s fiduciary net position, and additions to/deductions from the plan’s fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are recorded at fair value. The fund also records its proportionate share of the net OPEB liability, and related deferred outflows and inflows of resources.

Compensated Absences

It is the Fund's policy to permit employees to accumulate earned but unused sick leave and vacation benefits. There is no liability for unpaid accumulated sick leave.

Effective July 1, 1998, state employees are eligible to receive payment for an accumulated sick leave balance of 500 hours or more with a maximum of 1,500 hours upon retirement directly from state service. The benefit value is calculated by taking the state hourly rate of pay at the retirement date multiplied by the number of sick hours at the retirement date multiplied by the eligibility percentage. The eligibility percentage varies based upon the number of accumulated sick hours from 25 percent for 500 hours to a maximum of 50 percent for 1,500 hours. The maximum benefit value is $30,000. The benefit is paid out in annual installments over three years. The Retiree Accumulated Sick Leave Fund is accounted for on the State's financial statements as an Internal Service Fund.

Employees are allowed to accumulate up to 240 hours of vacation leave (320 hours for uncovered employees) which is paid when vacation is taken or upon termination of employment at the individual's then-current rate of pay.

Fund Balances

Fund balances for governmental funds may be reported in classifications that comprise a hierarchy based primarily on the extent to which the Fund is bound to honor constraints on the specific purposes for which amounts in those fund can be spent. Five classifications are available:

> **Nonspendable fund balance** - describes that portion that cannot be spent because of its form (inventories, prepaid amounts, etc.) and are not expected to be converted to cash.
>
> **Restricted fund balance** - describes that portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions (voter initiatives, court orders, grantor restrictions, bond covenants, etc.)
>
> **Committed fund balance** - describes that portion which can be used only for specific purposes pursuant to constraints imposed by a formal action of the Fund's highest level of decision-making authority. This formal action is the passage of law by the Legislature creating, modifying or rescinding fund balance commitments.
>
> **Assigned fund balance** - describes that portion that reflects the Fund's intended use of resources for a specific purpose, but are neither restricted nor committed.
>
> **Unassigned fund balance** - represents net resources in excess of what can properly be classified in one of the other categories.

The Fund's highest level of decision-making authority is the Arizona Transportation Board. The Fund is not subject to legislative appropriation.

When an expenditure is incurred for purposes for which restricted, committed and unassigned fund balance is available, the Fund considers restricted, committed and unassigned amounts to have been spent in that order.

E. Revenues and Expenditures/Expenses

In the government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function (e.g., Administration, Highway, Highway Maintenance). Additionally, revenues are classified between program and general revenues. Program revenues include charges for services, operating grants and contributions, and capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. General revenue includes all taxes and income on investments.

In the governmental fund financial statements, revenues are reported by source. Expenditures are reported by function (e.g., Administration, Distributions to governmental agencies, Debt service).
The distributions to governmental agencies are shared tax revenues that are distributed based on statutory requirements. Debt service includes both interest and principal outlays related to bonds and loans/advances).

Other Financing Sources (Uses)

Other financing sources are additions to the governmental fund balances in the fund financial statements and include resources and financing provided by bond issuance and transfers from other funds. Other financing uses are reductions of governmental fund resources in fund financial statements normally resulting from transfers to other funds, discounts on bond issuances, and payments to bond escrow agents to accomplish debt refundings.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balance/net position, the disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

2-STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The expenses of the Fund are not governed by appropriations of the state legislature and therefore are not subject to the limitations of a legally adopted budget. However, expenditures for highway construction and related right-of-way expenditures are subject to approval by the Transportation Board through the 5-year Transportation Improvement Program.

3-RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanations of Reconciling Items of the Balance Sheet of Governmental Funds to the Statement of Net Position

The governmental funds Balance Sheet includes a reconciliation between total fund balances governmental funds and net position of governmental activities as reported on the government-wide Statement of Net Position. The following explanations are necessary to clarify these differences between the governmental fund Balance Sheet and the government-wide Statement of Net Position:

1. Long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported in the current period on the fund statements. The detail for the difference is as follows:

Debt obligation	$	(624,415,000)
Unamortized premium on debt		(112,577,497)
Accrued Relocation Cost		(7,218,233)
	$	(744,210,730)

B. Explanations of Reconciling Items of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

The governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances includes a reconciliation between net change in fund balances - total governmental funds and changes in net position of governmental activities as reported on the government-wide Statement of Activities. The following explanations are necessary to clarify these differences between the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the government-wide Statement of Activities:

1. The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes current financial resources of the governmental funds. Neither transaction, however, has any effect on the change in net position. Also, the Fund reports the effect of bond premiums and discounts when debt is first issued, whereas these amounts are amortized in the Statement of Activities. Deferred losses on debt refundings do not require the use of current financial resources, and, therefore, are not reported in the funds.

The details of this difference are as follows:

Debt issued or incurred:		
Net change in accrued relocation costs		2,289,905
	$	2,289,905
Principal repayments:		
Transportation Excise Tax Revenue Bonds	$	107,950,000
Amortization of premium		15,030,271
Amortization of deferred losses on refunding		(3,783,275)
	$	119,196,996

2. Pension contributions are reported as expenditures in the funds in the fiscal year contributed. However, current year contributions are reported as deferred outflows of resources in the Statement of Net Position because the net pension liability is measured a year before the Fund's current fiscal year-end financial statements. Pension expense, adjusted for changes in deferred outflows and deferred inflows of resources, is reported in the Statement of Activities.

Pension contributions	$	522,035
Pension expense		316,157
	$	838,192

3. Some items reported in the Statement of Activities do not require the use of, or provide current financial resources and therefore, are not reported in the governmental funds. The details are as follows:

Compensated absences	$	2,139
Net change in accrued relocation reimbursement revenue		(2,159,381)
	$	(2,157,242)

4-NON-CURRENT LIABILITIES

A. Arizona Transportation Board Transportation Excise Tax Revenue Bonds and Accrued Relocation Costs

The Maricopa County Regional Area Road Fund is used to record all payments of principal and interest for Transportation Excise Tax Revenue Bonds issued by the Transportation Board. These bonds are secured by a portion of the transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County. The balance of Transportation Excise Tax Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was $732.4 million.

All Transportation Excise Tax Revenue Bonds mature no later than July 1, 2025. Transportation Excise Tax Revenue Bonds currently outstanding are as follows:

OUTSTANDING TRANSPORTATION EXCISE TAX REVENUE BONDS

As of June 30, 2020

	2011 Series		**2014 Series**		**2016 Series**		**2018 Series**	
Maturity (7/1)	Principal	Coupon	Principal	Coupon	Principal	Coupon	Principal	Coupon
2021	$ 12,555,000	5.00 %	$ 53,065,000	5.00 %	$ 12,465,000	5.00 %	$ 35,205,000	5.00 %
2022	13,180,000	3.00 %	55,720,000	3.00 %	13,085,000	5.00 %	8,000,000	2.00 %
2022	—		—		—		28,970,000	5.00 %
2023	—		58,505,000	4.00 %	26,135,000	5.00 %	39,760,000	5.00 %
2024	—		76,800,000	4.00 %	13,015,000	5.00 %	40,805,000	5.00 %
2025	14,685,000	3.00 %	63,675,000	5.00 %	15,660,000	5.00 %	43,130,000	5.00 %
Totals	$ 40,420,000		$307,765,000		$ 80,360,000		$195,870,000	

Accrued relocation costs represent estimated costs associated with displacement of certain residents and businesses through the eminent domain process related to the South Mountain Freeway project.

Annual debt service requirements to maturity for the Transportation Excise Tax Revenue Bonds are as follows:

Fiscal Year	Transportation Excise Tax Revenue Bonds		
Ending June 30	Principal	Interest	Total
2021	$ 113,290,000	$ 30,423,450	$ 143,713,450
2022	118,955,000	24,758,950	143,713,950
2023	124,400,000	19,314,800	143,714,800
2024	130,620,000	13,094,800	143,714,800
2025	137,150,000	6,563,800	143,713,800
Total	$ 624,415,000	$ 94,155,800	$ 718,570,800

Bonds aggregating $91,540,000 are subject to redemption prior to their maturity dates at the option of the Transportation Board in whole or in part, at any time, on or after July 1, 2019. These bonds may be redeemed at par, plus accrued interest to the date fixed for redemption. Bonds aggregating $532,875,000 are not subject to redemption.

The Fund has pledged a portion of future transportation excise taxes necessary to repay $624.4 million in outstanding Transportation Excise Tax Revenue Bonds issued since 2009. Proceeds from the bonds are used to pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Maricopa County, and to refund all or part of previous bond issues. The bonds are payable solely from transportation excise taxes and are payable through 2025. The total principal and interest remaining to be paid on the bonds is $718.6 million. Principal and interest paid for the current year and total pledged revenues were $143.7 million and $326.5 million, respectively. The annual principal and interest payments on the bonds required 44.0% of the pledged revenues.

B. Changes in non-current liabilities

The activity for the fiscal year ended June 30, 2020 was as follows:

	Balance July 1, 2019, as restated	Additions	Retirements	Balance June 30, 2020	Due Within One Year
Transportation Excise Tax					
Revenue Bonds:					
2009 Series	$ 340,000	$ —	$ (340,000)	$ —	$ —
2010 Series	12,695,000	—	(12,695,000)	—	—
2011 Series	52,375,000	—	(11,955,000)	40,420,000	12,555,000
2014 Series	328,130,000	—	(20,365,000)	307,765,000	53,065,000
2016 Series	109,850,000	—	(29,490,000)	80,360,000	12,465,000
2018 Series	228,975,000	—	(33,105,000)	195,870,000	35,205,000
Total revenue bonds	732,365,000	—	(107,950,000)	624,415,000	113,290,000
Unamortized premium on bonds	127,607,768	—	(15,030,271)	112,577,497	18,728,477
Accrued relocation costs	9,508,138	—	(2,289,905)	7,218,233	4,393,331
Compensated absences	2,139	—	(2,139)	—	—
	$ 869,483,045	$ —	$(125,272,315)	$ 744,210,730	$ 136,411,808

C. Refunded Bonds Deposited with Escrow Agents

In prior fiscal years, the Transportation Board refinanced various bond issues through refunding arrangements. Under the terms of the refunding bond issues, sufficient assets to pay all principal, redemption premium, if any, and interest on the refunded bond issues have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The assets, liabilities, and financial transactions of these trust accounts and the liability for these legally defeased bonds are not reflected in the accompanying financial statements.

Bonds and notes issued by the Fund require compliance with a number of covenants. The Fund believes that it is in compliance with all such covenants. In addition, certain of the Fund's obligations are subject to Internal Revenue Service regulations pertaining to issuance of tax-exempt debt by governmental entities. The Fund does not have and has not accrued a liability under these regulations.

5-DISTRIBUTIONS TO GOVERNMENTAL AGENCIES

The distributions to the Department and other governmental agencies primarily represent the distributions when the Fund comes into possession of completed capital assets.

Distributions to the Department and other governments or agencies for the year ended June 30, 2020, were as follows:

	Fund-level	Government-wide
Distributions to Arizona Department of Transportation	$ 344,701,187	$ 342,411,282
Distributions to other State agencies	125,641	125,641
Distributions to Arizona counties and cities	36,898,033	36,898,033
Distributions to Regional Public Transit Authority	10,360,531	10,360,531
Totals	$ 392,085,392	$ 389,795,487

The difference between the fund-level and government-wide amounts reflects the *net accrual* of relocation costs. Amounts accrued at the government-wide level in prior fiscal years and reported in the current fiscal year at the fund-level are not reported in the Statement of Activities. See Note 3B1 and 3B3 for more information.

6-TRANSPORTATION EXCISE TAX

The Maricopa County Transportation Excise Tax, often referred to as the "1/2 cent sales tax," is a tax which may equal up to ten percent of the State transaction privilege tax rates. This transportation excise tax is levied upon business activities in Maricopa County, including retail sales, contracting, utilities, rental of real and personal property, restaurant and bar receipts, and other activities. Under Proposition 300 (passed by the voters in 1985 becoming effective on January 1, 1986), the Fund's share (66.7%) of transportation excise tax revenues are deposited in the Maricopa County Regional Area Road Fund (RARF) which is administered by the Arizona Department of Transportation. The revenues deposited into the RARF account are the principal sources of funding for the Regional Freeway System in Maricopa County and are dedicated by statute to the purchase of right-of-way, design, and construction of controlled access highways.

In November 2004, Maricopa County's voters approved Proposition 400, Maricopa County Transportation Excise Tax, which became effective January 1, 2006, and extends the "1/2 cent sales tax" for another 20 years through December 31, 2025. The sales tax extension will be used for construction of new freeways and other routes, improvements to existing freeways and other routes, improvements to the arterial street system, regional bus service, and high capacity transit services such as light rail. The collections of the Maricopa County Transportation Excise Tax will be distributed as follows: freeways and other routes 56.2%, public transportation 33.3%, and arterial streets 10.5%.

7-COMMITMENTS

The Fund has outstanding commitments, primarily for construction contracts, of $528.8 million at June 30, 2020. The following table summarizes outstanding commitments as of June 30, 2020:

Construction	$ 232,329,143
Design	123,903,287
ROW	156,197,565
Utilities	9,495,154
Other	6,872,327
Total	$ 528,797,476

No construction in progress is recorded in the Fund. All capital assets are transferred to the ADOT's General Fund (State Highway Fund).

8–CONTINGENT LIABILITIES

Risk Management Insurance Losses

The Department is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Department is a participant in the state's self-insurance program and, in the opinion of the Department 's management, any unfavorable outcomes from these claims and actions would be covered by the self-insurance program. Accordingly, the Department has no risk of loss beyond adjustments to future years' premium payments to the state's self- insurance program. All estimated losses for unsettled claims and actions of the state are determined on an actuarial basis and are included in the State of Arizona's Comprehensive Annual Financial Report.

Claims

The Department has a variety of claims pending against it that arose during the normal course of its activities. Management of the Department believes, based on the advice of legal counsel, that losses, if any, resulting from settlement of these claims will not have a material effect on the financial position of the Department.

Grants

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Department expects such amounts, if any, to be immaterial.

9-INTERFUND TRANSFERS

The Special Revenue Fund made transfers of $142,181,382 to the Debt Service Fund to pay bond debt service.

10-ACCOUNTING PRONOUNCEMENTS AND PENSION BENEFITS

A. New Accounting Pronouncements

For the year ended June 30, 2020, the Fund implemented the provisions of the following Governmental Accounting Standards Board (GASB) pronouncements:

- GASB Statement No. 84, *Fiduciary Activities* – to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this pronouncement did not impact the Department's financial statements.

- GASB Statement No. *95, Postponement of the Effective Dates of Certain Authoritative Guidance* - This statement postpones implementation dates of several GASB pronouncements due to the Covid-19 pandemic. GASB Statement No. 87, *Leases*, is the only postponed pronouncement that has a material impact to the Department's financial statements. Pursuant to GASB 95, the requirements of GASB 87 are effective for reporting periods beginning after June 15, 2021, and all reporting periods thereafter.

- GASB Technical Bulletin No. 2020-1, *Accounting and Financial Reporting Issues Related to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and Coronavirus Diseases* - to answer accounting and financial reporting questions regarding the CARES Act. The requirements of this Technical Bulletin are effective immediately.

Except for GASB Statement No. 95, the implementation of the above GASB Statements and other authoritative guidance did not have a material effect on the Department's financial statements.

B. Pensions

The Fund contributes to the Arizona Statement Retirement System plan described below. The plan is a component unit of the State of Arizona. At June 30, 2020, the Fund reported the following amounts related to the pension plan to which it contributes:

Net pension liability	$	5,242,569
Deferred outflows of resources		638,904
Deferred inflows of resources		710,987
Pension expense		(316,157)

Arizona State Retirement System

Plan Descriptions – Employees of the Fund participate in the Arizona State Retirement System(ASRS). The ASRS administers a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health insurance premium benefit (OPEB); and a cost-sharing, multiple-employer defined benefit long-term disability (OPEB). The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

Benefits Provided - The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Retirement Initial Membership Date:	
	Before July 1, 2011	On or after July 1, 2011
Years of service plus age required to receive benefit	Sum of credited service years plus age equals 80 10 years of credited service, at age 62 Any years, age 65	30 years age 55 25 years age 60 10 years, age 62 Any years, age 65
Average monthly compensation is based on	Highest 36 consecutive months of last 120 months- termination pay excluded	Highest 60 consecutive months of last 120 months- termination pay excluded
Benefit percent multiplier	2.1% to 2.3%	2.1% to 2.3%
Benefit percent multiplier is based on years of service	0-19.99 years of service 2.10% 20-24.99 years 2.15% 25-29.99 years 2.20% 30 or more years 2.30%	0-19.99 years of service 2.10% 20-24.99 years 2.15% 25-29.99 years 2.20% 30 or more years 2.30%

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to cost-of-living adjustments based on excess investment earnings, which are reserved for this purpose. Funds are reserved when total actuarial investment returns for each fiscal year are greater than 8%. If there are no excess investment earnings in the reserve, then no additional benefit increase is paid. As of June 30, 2019, there is a $62.5 million balance in the reserve for future cost-of-living adjustments however, this amount will not create cost-of-living adjustments in the current year per the above statute. Pursuant to A.R.S. § 38-767, retired members with at least 10 years of service who have been retired five or more years are eligible for an enhanced cost-of-living increase. For each complete five-year period the member has been retired, an incremental benefit is paid if monies to pay the benefit are available. This benefit is funded by an interest credit of 8% of the reserve for future cost-of-living adjustments..

Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the retirement benefit option chosen determines the survival benefit. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Contributions – In accordance with State statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2020, active ASRS members were required by statute to contribute at the actuarially determined rate of 12.11% (11.94% for retirement and 0.17% for long-term disability) of the members' annual covered payroll, and the Fund was required by statute to contribute at the actuarially determined rate of 12.11% (11.45% for retirement, 0.49% for the health insurance premium benefit, and 0.17% for long-term disability) of the active members' annual covered payroll. In addition, the Fund was required by statute to contribute at the actuarially determined rate of 10.41% (10.29% for retirement, 0.05% for health insurance premium benefit, and 0.07% for long-term disability) of annual covered payroll of retired members who worked for the Fund in positions that would typically be filled by an employee who contributes to the ASRS. The Fund's contributions to the pension plan for the year ended June 30, 2020, were $522,035.

The Fund's total covered payroll for fiscal year 2020 was $4,559,255. The System is funded through payroll deductions from employees' gross earnings and amounts contributed by the Fund. Retirement benefits, health care benefits, and long term disability benefits are obligations of the ASRS and not of the Fund. The Arizona Revised Statutes provide statutory authority for employee and employer contributions. The contribution requirement for fiscal year 2020 was $522,035 each by both the employees and the Fund.

Presentation of Deferred Outflows and Deferred Inflows of Resources

Deferred outflows and inflows of resources are reported in the basic statements of net position in a separate section following assets and liabilities, respectively.

The Fund recognizes the consumption of net position that is applicable to a future reporting period as deferred outflows of resources. A portion of the deferred outflows of resources relates to the Fund's pension plan.

The Fund recognizes the acquisition of net position that is applicable to a future reporting period as deferred inflows of resources. The deferred inflows of resources at the government-wide level relate to the Fund's pension plan.

Current year contributions to the ASRS are reported as deferred outflows of resources in the Statement of Net Position.

Changes in the Fund's net pension liability during the fiscal year ended June 30, 2020 (measured as of June 30, 2019) were as follows:

Beginning Balance	$	5,227,814
Increases		3,921,116
Decreases		(3,906,361)
Ending Balance	$	5,242,569

Pension Liability – At June 30, 2020, the Fund reported a liability of $5,242,569 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2018, to the measurement date of June 30, 2019 using generally accepted actuarial procedures.

The Fund's reported liability at June 30, 2020, increased by $14,755 from the prior year liability of $5,227,814 because of changes in the ASRS' net pension liability and the Fund's proportionate share of that liability. The ASRS' publicly available financial report provides details on the change in the net pension liability.

The Fund's proportion of the net pension liability was based on the Fund's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2019. The Fund's proportion measure as of June 30, 2019, was 0.0360%, which was a decrease of 0.0015% from its proportion measure as of June 30, 2018 of 0.0375%.

The actuarial assumptions presented herein pertain to assumptions utilized for financial reporting requirements and differ from the assumptions utilized for funding purposes. The principal differences between the actuarial assumptions for financial reporting purposes and those utilized for funding purposes are the amortization methodology and valuation of assets. The actuarial assumptions were selected on the basis of an experience study which was performed for the five-year period ending June 30, 2016. The ASRS Board adopted the experience study which recommended changes, and those changes were effective as of the June 30, 2017 actuarial valuation.

The Fund reported OPEB liabilities and related deferred outflows and inflows of resources in the accompanying financial statements in conjunction with the implementation of GASB 75. The OPEB liability is not significant in relation to the Fund's total liabilities and net position. As a result, footnote disclosures related to OPEB have been omitted.

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2020, the Fund recognized pension expense of $(316,157). At June 30, 2020, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 59,615	$ 18,570
Change in Assumptions	57,254	298,846
Net difference between projected and actual earnings on pension plan investments	—	81,023
Change in proportion and differences between ADOT contributions and proportionate share of contributions	—	312,548
Fund contributions subsequent to the measurement date	522,035	—
Total	$ 638,904	$ 710,987

The $522,035 reported as deferred outflows of resources related to pensions resulting from the Fund contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021 (measurement date of June 30, 2020).

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30	Pension Expense
2021	$ (396,191)
2022	(206,849)
2023	(22,630)
2024	31,552

Actuarial Assumptions - The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial valuation date	6/30/2018
Actuarial roll forward date	6/30/2019
Actuarial cost method	Entry age normal
Asset valuation	Fair value
Investment rate of return (Discount Rate)	7.50%
Projected salary increases	2.7 - 7.2%
Inflation	2.30%
Permanent benefit increase	Included
Mortality rates	2017 SRA Scale U-MP

Actuarial assumptions used in the June 30, 2019 valuation were determined by an actuarial valuation as of June 30, 2018, and rolled forward using generally accepted actuarial procedures to June 30, 2019.

The long-term expected real return on ASRS pension plan investments was determined to be 5.45% using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term contribution to expected real return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Asset Allocation Effective July 1, 2019	Real Return Geometric Basis	Long-Term Contribution to Expected Real Return
Equity	50%	6.09%	3.05%
Credit	20%	5.36%	1.07%
Interest Rate Sensitive Bonds	10%	1.62%	0.16%
Real estate	20%	5.85%	1.17%
Total	100%		5.45%

Discount Rate – The discount rate used to measure the ASRS total pension liability was 7.5%, which is greater than the long-term contribution to expected real return of 5.45%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statutes. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term contribution to expected real return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Fund's Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate – The following table presents the Fund's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Fund's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
	6.5%	7.5%	8.5%
RARF's proportionate share of the net pension liability	$7,461,224	$5,242,569	$3,388,272

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report. The most recent report may be obtained by writing the Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910, by calling (602) 240-2000 or (800) 621-3778 or visiting the website
https://www.azasrs.gov/sites/default/files/2018-GASB-68-75-Reports-6.30.2018.pdf

11-ACCOUNTING CHANGES

Government-wide Financial Statements

Government-wide net position has been restated as follows:

	Governmental Activities
Net position, as previously reported	$ (326,642,372)
Prior period adjustment	(36,646,268)
Net position, as restated	$ (363,288,640)

Prior Period Adjustment

Governmental activities beginning net position has been restated to reflect a change from amortizing bond premiums on a straight-line basis to the effective interest method. The change to the effective interest method was implemented to increase the accuracy of reported interest expense in the Statement of Activities, and to streamline amortization of bond premiums. Amortization amounts are derived directly from the bond pricing schedules for each bond issuance.

REQUIRED SUPPLEMENTARY INFORMATION

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Required Supplementary Information
June 30, 2020

Schedule of Fund's Proportionate Share of the Net Pension Liability
For the Last Five Fiscal Years (1)

	Fiscal Year (Measurement Date)				
	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)
Fund's proportion of the net pension liability	0.0360 %	0.0375 %	0.0404 %	0.0523 %	0.0189 %
Fund's proportionate share of the net pension liability	$ 5,242,569	$ 5,227,814	$ 6,542,922	$ 8,462,851	$ 2,936,413
Fund's covered payroll	$ 3,795,349	$ 3,724,055	$ 3,936,954	$ 4,901,518	$ 1,737,713
Fund's proportionate share of the net pension liability as a percentage of its covered payroll	138.13 %	140.38 %	166.19 %	172.66 %	168.98 %
Plan fiduciary net position as a percentage of the total pension liability	73.24 %	73.40 %	69.92 %	67.06 %	68.35 %

(1) The Fund implemented GASB 68 in fiscal year 2016 (net pension liability measured as of June 30, 2015). Therefore, ten years of data is not available, but will be accumulated over time.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Required Supplementary Information
Fiscal Year Ended June 30, 2020

Schedule of Fund's Pension Contributions
For the Last Six Fiscal Years (1)

	Fiscal Year					
	2020	2019	2018	2017	2016	2015
Statutorily required contribution	$ 522,035	$424,320	$ 405,922	$ 424,404	$ 531,815	$ 189,237
Fund's contributions in relation to the statutorily required contribution	522,035	424,320	405,922	424,404	531,815	189,237
Fund's covered payroll	4,559,255	3,795,349	3,724,055	3,936,954	4,901,518	1,737,713
Fund's contributions as a percentage of covered payroll	11.45 %	11.18 %	10.90 %	10.78 %	10.85 %	10.89 %

(1) The Fund implemented GASB 68 in fiscal year 2016 (net pension liability measured as of June 30, 2015). Therefore, ten years of data is not available, but will be accumulated over time.

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Director
Arizona Department of Transportation
Phoenix, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Maricopa County Regional Area Road Fund, a special revenue fund of the Arizona Department of Transportation, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Maricopa County Regional Area Road Fund's basic financial statements, and have issued our report thereon dated January 15, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Maricopa County Regional Area Road Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Maricopa County Regional Area Road Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of Maricopa County Regional Area Road Fund's internal control.

A *deficiency in internal* control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

A member of Nexia International

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Maricopa County Regional Area Road Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Maricopa County Regional Area Road Fund’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Maricopa County Regional Area Road Fund’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
January 15, 2021